

Sanitized Copy Approved for Release 2011/06/22 :  
CIA-RDP85T00875R001000070

Sanitized Copy Approved for Release 2011/06/22 :  
CIA-RDP85T00875R001000070

~~Top Secret~~

25X1



# Weekly Review

~~Top Secret~~

30 August 1974

25X1  
25X1

Copy No 636

The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

## CONTENTS (August 30, 1974)



- 1 Cyprus
- 5 The Middle East
- 8 Portugal: Power Contest; Africa

25X1

### EUROPE

- 10 Greece: Looking Toward Europe
- 11 Iceland: A New Government
- 11 UK: Trade Union Congress
- 12 Romania: 30th Anniversary Fete
- 13 Hungary: Rumors of Trouble

25X1

### EAST ASIA PACIFIC

25X1

- 14 Vietnam: Fighting; Propaganda
- 15 Laos: Surviving Without Souvanna
- 16 China: Increasing Petroleum Sales
- 17 Malaysia: A Clean Sweep

### MIDDLE EAST AFRICA

- 18 Iran-Iraq: Border Trouble Worsens
- 20 Spanish Sahara: Referendum Set
- 21 Ethiopia: New Tack in Eritrea

### WESTERN HEMISPHERE

- 22 Chile-Peru: The Arica Issue
- 22 Netherlands Antilles:  
Independence Problems Loom
- 24 Brazil: Foreign Trade Concerns
- 25 UN: Troubled Waters for Shipping

25X1

25X1



Clerides and Denktash (foreground) with UN officials Aga Khan and Waldheim

## CYPRUS

Diplomatic activity has intensified, but there has been little progress thus far in resolving the Cyprus conflict. Greece and the Greek Cypriots this week accepted a Soviet proposal to bring the Cyprus crisis before a large international conference under the auspices of the UN Security Council. The Turks and Turkish Cypriots, however, rejected Moscow's suggestion, and continued to advocate a return to the Geneva talks. The Greek side has resorted to delaying tactics in an apparent belief that it will gain more international support as time goes on. The Turkish side, however, realizes that Greece is winning the propaganda war, and reportedly is moving ahead with plans to create an "autonomous Turkish Republic of Cyprus." The military cease-fire on Cyprus is holding, but Greek Cypriots have threatened guerrilla warfare, and tension remains high on the island.

### Diplomatic Maneuvering

Cypriot President Clerides and Greek Prime Minister Karamanlis met last weekend in Athens and reportedly are in agreement concerning future policy toward Cyprus. The two continue to demand that Turkey withdraw its forces to

positions held before the second round of fighting, and they insist that Turkish "concessions" are not substantial enough to warrant reopening the Geneva talks. Both Athens and Nicosia later accepted the Soviet proposal for an international conference to discuss Cyprus. The vaguely worded Soviet government statement, issued on August 22, calls for Athens, Ankara, Nicosia, all UN Security Council members, and some unspecified nonaligned states to attend the conclave.

The Greek reply to the Soviet proposal, however, reportedly expressed "agreement in principle," suggesting that Athens has some reservations. UN Secretary General Waldheim, who met with the leaders of all interested parties this week, indicated that neither Karamanlis nor Clerides is really interested in the Soviet proposal. There are other indications that their acceptance of Moscow's plan was motivated by a desire to delay negotiations and gain wider international support for the Greek position. Clerides told reporters, for instance, that opinion in Europe has started to swing in favor of the Greek Cypriots. By accepting the Soviet proposal, Karamanlis was also able to make a gesture to the left in Greece, the direction from which his most serious

political problems are likely to come. Both Karamanlis and Clerides realize they will have to make concessions eventually, but they hope to postpone doing so until domestic frustrations and tempers cool.

After consulting with Karamanlis, Clerides met with Turkish Cypriot leader Denktash and UN representatives to discuss humanitarian problems. Waldheim said that some progress was made in facilitating the movement of foodstuffs and reuniting broken families on a case-by-case basis. The two Cypriot leaders agreed to meet every Monday, and Waldheim hopes that the two men will eventually discuss political issues and contribute to a resolution of the crisis. Athens and Ankara, however, will probably keep the Cypriot leaders on a short leash. In contrast to the Greeks, the Turks hope for an early resumption of talks involving only Athens, Ankara, the two Cypriot communities, and Great Britain. The Turks view the Greeks as being much better than themselves at mobilizing world opinion and are worried that they will be out-manuevered diplomatically now that the fighting has ceased. The Turkish side is adamant that an eventual political settlement recognize a separate and autonomous Turkish administration in the northern part of the island. The Turks have conceded that the exact boundaries of the Turkish Cypriot autonomous area are negotiable. Statements by Denktash about the possible establishment of an independent Turkish Cypriot state are, in part, an effort to force the Greek side to the bargaining table, but the Turkish side reportedly is preparing to create such a state if the Greeks continue to stall on opening talks.

### UN Activities

The UN Security Council was scheduled to hold a special session on August 29 to discuss the Cyprus situation. Clerides requested the meeting to discuss the refugee problem on Cyprus, but a strong possibility existed that debate would be broadened.

Earlier in the week, Secretary General Waldheim visited Nicosia, Athens, and Ankara to

sound out the antagonists on possible negotiations and to discuss the role of the UN forces on Cyprus. Waldheim expressed hope that a common ground will be found that will permit peace talks to begin, but acknowledged that a wide gap exists between the Greek and Turkish sides. The Secretary General believes that a first order of business is to reach agreement on a new mandate for the UN peace-keeping force. He wants to update the mandate, which expires in December, to reflect the new situation on the island.

### The Soviet Angle

The Soviet proposal for an international conference represents a continuation of Moscow's efforts to establish a role for itself in the Cyprus conflict and to reiterate its support for Cypriot independence. The move also seems aimed at exploiting Greek discontent with the Geneva talks. The Soviet statement was issued only after the Turks had completed their occupation of northern Cyprus. This timing, along with the continued absence of direct Soviet criticism of Ankara, indicates Moscow does not want the proposal to be viewed as a slap at the Turks.

Now that the Greeks have accepted—and Ankara has rejected—the Soviet proposal, Moscow seems uncertain about how to proceed without offending the Turks. Although Soviet public comment is somewhat more favorable to Athens, Moscow has not pushed its proposal energetically with other countries or at the UN. The Soviets will probably keep their gambit alive in order to curry favor with the Greeks, but will probably not chastize Ankara for rejecting it. Such criticism might compromise Moscow's longer term interest in maintaining good relations with Ankara.

Britain, which had been working to win Greek agreement to reopen the Geneva negotiations, initially gave a chilly reception to the Soviet plan. London reportedly says, however, that it will not oppose such a proposal if it is acceptable to the other interested parties. The US



25X1

25X1

25X1

mission to the UN believes that the plan is not likely to win acceptance in the immediate future unless there are new Turkish provocations on Cyprus.

### On Cyprus

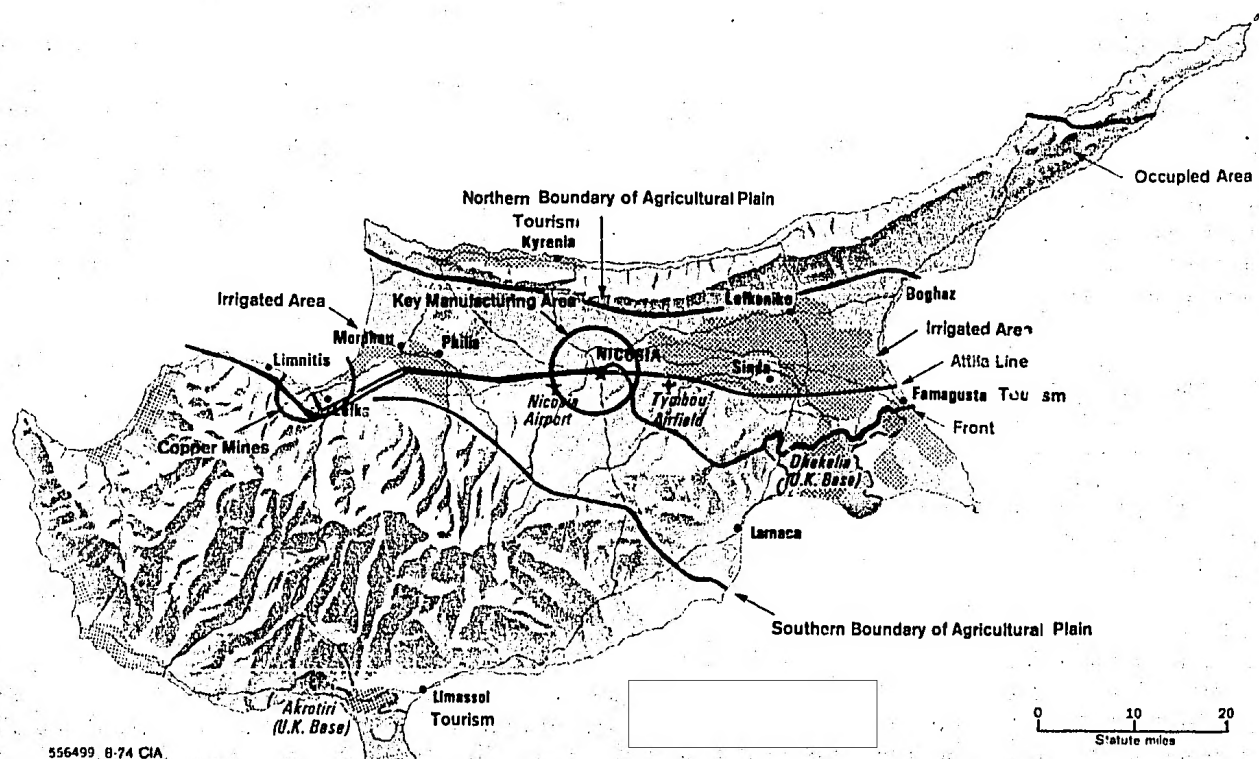
On Cyprus itself, the military cease-fire is holding, but considerable tension remains. The government, aided by the International Red Cross and donations by several countries, is attempting to relieve the plight of an estimated 200,000 refugees, but relief will be slow in coming. Various Greek Cypriots, including some representing themselves as members of the right-wing EOKA-B, have threatened to wage guerrilla war. President Clerides reportedly will seek to control the various paramilitary groups on the island, but admitted last week that he does not have sufficient power to do so at this time. Although the threats of guerrilla war may not be translated into deeds for some time, the Turks have begun to

take the threats seriously.

### Control of Economic Resources

In capturing about 40 percent of Cyprus, Turkey has gained control of almost all of the island's important economic resources. Permanent partition along present lines would place the majority Greek population—about 80 percent of the total—in an economically untenable situation.

Cyprus' key agricultural, mining, manufacturing, and tourist centers are all in the Turkish



25X1

25X1

zone of control. This area has accounted for considerably more than half of the economic activity on the island. Greek Cypriots have fled to the mountainous, least productive areas. Still in Greek Cypriot hands are the Limassol tourist and commercial area, the port of Larnaca, and the Troodos highlands where grazing and olive, wine, and grape production are the chief occupations.

The Turkish-controlled zone includes land devoted to wheat, barley, vegetables, potatoes, and citrus fruits. Cyprus, already dependent on imports for 40 percent of its food supply, consumes all domestically grown wheat, barley, and vegetables.

More than half the producing areas for these foods, accounting for about 65 percent of Cypriot agricultural output by volume, are under Turkish control. The Turks occupy almost all the agricultural areas that are permanently irrigated.

Turkish forces also control large sections of the copper-producing region surrounding the city of Xeros. This area, encompassing the Mavrovouni and Skouriotissa operations of the US-owned Cyprus Mines Corporation, accounts for two thirds of Cypriot mineral production and 70 percent of mineral export earnings. The Greeks retain some copper resources, as well as important iron pyrite deposits, south of the Turkish-occupied zone.

Turkish troops occupy much of the principal manufacturing district surrounding Nicosia as well as the popular Kyrenia and Famagusta tourist areas. While destruction in these areas has not been extensive, the massive dislocation of workers and the absence of tourists have brought economic activity to a standstill.

Outside the occupied zone, fires caused by Turkish bombing have destroyed a large part of the southwestern timber lands. Resulting watershed deforestation will threaten the island's already scarce water supply.

Water shortages, normal occurrences before the war, are now severe. Crops have not been irrigated in over a month, and livestock is reported to be dying of thirst in large numbers.

The invasion has had a devastating impact on Greek Cypriots, causing an estimated 100,000 to 200,000 to flee their homes and businesses. Preliminary estimates by Greek Cypriot authorities put the losses at over \$200 million, including: construction, \$125 million; tourism, \$36 million; industry, \$18 million; agriculture, \$8-10 million; lost working days, \$18 million. Final figures will probably be much higher.

While Ankara remains flexible, present Turkish plans seem to call for a formalization of the Attila line. Should there be an extensive exchange of population between Greek Cypriots leaving and Turkish Cypriots entering the occupied zone, the land gained by Turkish Cypriots in the north-east portion of the island would be much greater than that abandoned in the southwest.

It is unlikely that the area left to the Greek Cypriots could support the additional 150,000 refugees who might have to be resettled there. Since food supplies already are inadequate, heavy reliance on foreign food aid would be necessary. Lacking significant manufacturing, agricultural, mining, and tourist activity, the Greek-held areas face extensive under-employment and massive emigration.

Ankara is likely to consolidate its gains in the northeast by pouring considerable investment into the mineral, tourist, petroleum refining, and service industries. The Turkish Cypriot population, which formerly enjoyed a per capita income only half that of Greek Cypriots, would profit from the realignment.

The military expedition, which has cost Turkey an estimated \$370 million, would be compensated by the creation of a robust Turkish Cypriot economy and elimination of an annual \$22 million welfare payment made by Ankara to support the Turkish enclaves.

25X1

25X1

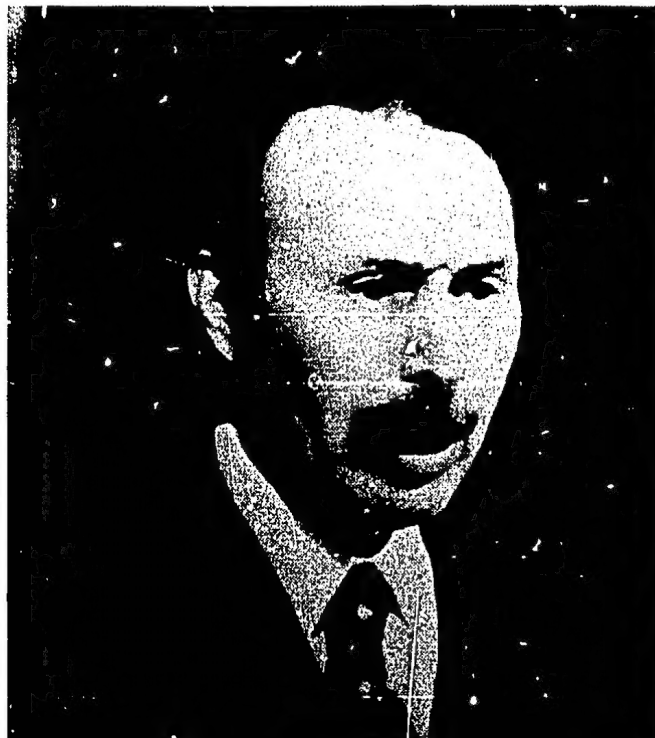
25X1

## THE MIDDLE EAST

### NO BOOST FROM BOUMEDIENE

President Sadat's hopes of working out a coordinated Arab position on the roles to be played by Jordan and the Palestine Liberation Organization in the next phase of Middle East peace negotiations were jarred last week by Algeria's rejection of any role at all for Jordan. In an uncompromising public address on August 22, President Boumediene reiterated his support for the resolution passed at the Arab summit last November, which recognized the PLO as the sole legitimate representative of the Palestinian people.

Boumediene warned that a leading role for King Husayn at this time would not facilitate the search for peace. He also insisted that Arab solidarity depended upon an honest agreement without "backstage tricks," an apparent reference to Egypt's agreement to allow Jordan to negotiate for the return of the West Bank.



Boumediene

Algeria's tough stand will complicate Sadat's effort to accommodate both Palestinian and Jordanian approaches to the negotiations, and it will strengthen the hands of those Palestinians who oppose PLO leader Yasir Arafat. In particular, Boumediene's intransigence appears to rule out any hope that Algeria will act as a mediator if the coming meeting of the foreign ministers of Egypt and Syria with representatives of the PLO runs into difficulty.

Sadat, nonetheless, appears determined to press his suit with the PLO and the Jordanians. In a press conference on August 28, he reiterated his thesis that Israel may try to exploit the contradiction between the PLO and Jordan. Sadat has emphasized all along that, although advancing Palestinian rights is all-important, neither the Palestinians nor the Arabs as a whole will gain in the long run if divisions in Arab ranks enable Israel to avoid having to face up to negotiations. In an apparent effort to squash any speculation that he is becoming discouraged with the pursuit of negotiations on the Jordan front and might revert to the search for a further Egyptian-Israeli disengagement, Sadat insisted in a speech on August 25 that "Egypt will not put an end to the state of war unilaterally."

### Pressure From Within

Sadat also chaired a cabinet meeting this week that apparently approved preparations for the Egyptian-Syrian-PLO meeting and favorably reviewed Foreign Minister Fahmi's recent visit to the US. The meeting, however, was held against a background of grumbling within the cabinet over Sadat's failure to maintain a true balance in Egypt's relations with the two super powers. Sadat reportedly has been criticized by a majority of cabinet members for having "almost blind faith" that the US will arrange a satisfactory peace and will provide Egypt with needed economic assistance.

Sadat's critics remain personally loyal to him. Their dissatisfaction is not a reflection of opposition to the US or of a preference for



Moscow, but of restiveness over the current lull in peace negotiations and ungratified expectations of US aid.

The Egyptian media have begun to show a more relaxed attitude toward the US since Fahmi's return from Washington, and this press reaction probably indicates some easing of the concern within the cabinet. Nevertheless, government officials are said to be worried that domestic pressures on Sadat will mount until more tangible benefits are apparent from the relationship with Washington and until the deterioration in relations with Moscow—specifically with regard to military aid—is arrested. Particularly worrisome to the cabinet are indications of increasing dissatisfaction within the Egyptian military over the denial of Soviet arms since last April and the absence of any prospect that Soviet supplies will be substantially replaced by arms from the West.

In speeches last weekend and in his press conference this week, Sadat seemed to go out of his way to mollify his domestic critics. He noted the necessity of coordinating Arab positions with Moscow before reconvening the Geneva Conference, and he expressed a more general desire to improve relations with the Soviets, stressing that Egypt's friendship with one super power does not signify its alignment against the other. This is a standard position with Sadat but one that he has not emphasized publicly since the Soviets abruptly canceled a scheduled visit by Fahmi to Moscow in mid-July.

#### ON ALERT

Israel conducted its widely publicized nationwide mobilization exercise this week amid Arab apprehension that it would be used as a cover for an Israeli attack.

The exercise began on August 25 and ended two hours ahead of schedule the next day. The Israeli chief of staff termed the exercise a success, with nearly all the recalled reservists reporting for duty. The public call-up, which was said to have

involved "tens of thousands" of reservists, was a test of Israel's ability to mobilize quickly in an emergency. According to an Israeli military spokesman, this system of recall was last used operationally in 1967 and in an unannounced practice call-up "some years ago."

Tel Aviv followed the mobilization exercise with military maneuvers on Monday night in the Sinai, but it is not known if any of the mobilized reservists participated. Israel has held several large-scale maneuvers during the past month, and some reservists had been mobilized for them. 25X1

**Page Denied**

**PORTUGAL: CONTEST FOR POWER**

25X1

25X1

Friction between President Spinoia and the Armed Forces Movement has subsided, at least temporarily. There is no indication, however, that their basic differences have been resolved, although Spinoia appears to be gaining a slight edge.

The latest crisis was triggered by Spinoia's insistence that the Coordinating Committee of the Armed Forces Movement, which has been monitoring government decisions, be downgraded or eliminated entirely. Spinoia threatened to resign over this issue, claiming that the present arrangement prevented him from carrying out his policies.

A complete deadlock was prevented when Spinoia and Movement leaders agreed to poll all military officers.

[redacted] Spinoia's support was particularly strong in the army, while the navy remains less content with the President's leadership. In any case, Spinoia will have more freedom to implement the Movement's program as he sees it without the supervision of the committee, although he will continue to coordinate his moves with the hierarchical structure of the armed forces and the government.

The Armed Forces Movement has previously presented a united front, but the continuing contest for power has split it into two factions. Spinoia and his followers, including some young officers in the Armed Forces Movement, advocate gradual reform of the political, economic, and social structure, as well as a slow process of decolonization. They believe that the provisional government must proceed slowly because it does not have a mandate from the people.

The opposition is led by Prime Minister Goncalves, who assumed office in the cabinet shuffle last month when Spinoia and ex-prime minister Palma Carlos failed to receive the support of the entire Movement. Goncalves' followers, who lean toward the left, believe that rapid and more radical reforms are imperative.

The rift in the Movement appears to be working to Spinoia's advantage. The great majority of the officers are said to be politically neutral, but believe that they must side with Spinoia and his chief of staff, General Costa Gomes. Moreover, a group of regular officers appears to resent the maneuverings of political activists in the armed forces.

[redacted] a campaign is under way to reassign politically active members of the Armed Forces Movement to overseas duty. Such a move was rumored recently when junta member Rosa de Coutinho was sent to head the military junta in Angola and Minister without Portfolio Melo Antunes was assigned to Mozambique. The latter appointment has been postponed, however, and may be canceled.

25X1 25X1

Although Spinoia appears to have won another round in this continuing contest for power, his position apparently is still not as solid as he would like.

25X1 25X1

**WITHDRAWAL FROM AFRICA**

Lisbon this week passed a major milestone in its withdrawal from Africa as a colonial power. It signed in Algiers a formal agreement accepting the independence of the Republic of Guinea-Bissau, which had been proclaimed a year ago by the rebel movement in Portuguese Guinea. The signatures of Portuguese and rebel representatives were hardly dry before Portugal began repatriating its troops.

The agreement is to take effect on September 10 when formal ceremonies are to be held in Bissau to mark the territory's independence.

25X1

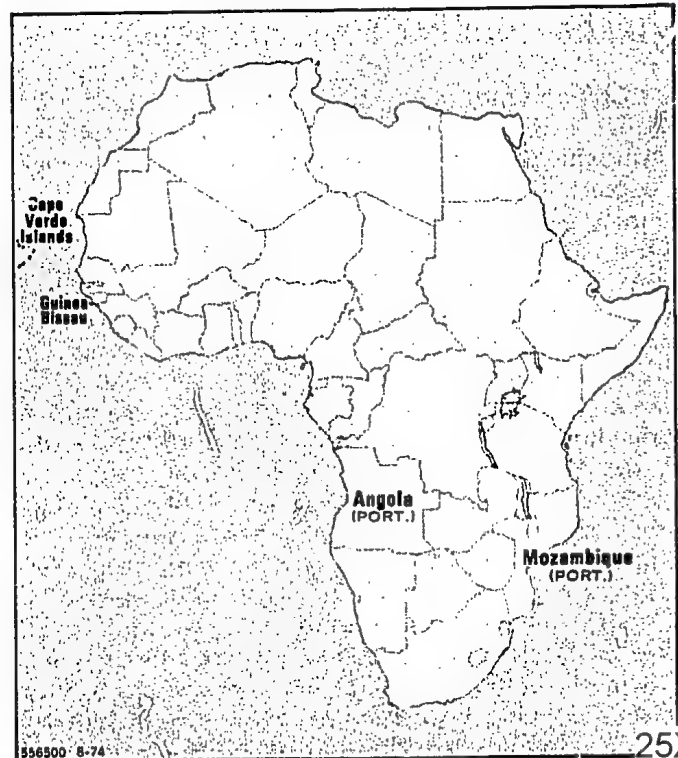
President Spínola, who led Portugal's military campaign there for five years, reportedly will be present for the occasion. The two countries will then establish diplomatic relations.

As part of the settlement, Lisbon agreed to remove all Portuguese forces from the territory by the end of October, although it will leave behind sizable numbers of technicians, educators, and medical personnel. There are approximately 20,000 troops from Portugal in the territory. Nothing was officially announced about the future of several thousand locally recruited troops, although the rebels have indicated in the past that they will take no reprisals against any who agree to support the independent government.

The agreement leaves open the future of the Cape Verde Islands. A referendum will be held there at some later date, and representatives from Guinea-Bissau will be allowed to campaign on behalf of union with the republic. During the insurgency, rebel leaders consistently claimed to represent the islands. The Portuguese wish to retain them because of their strategic value.

Guinea-Bissau's major problem now is its backward economy. The territory has no resources to exploit and is heavily dependent on imports. Subsistence agriculture is the main way of life, with exports limited to modest quantities of palm oil, peanuts, and root crops. Significant external economic assistance will be needed. Although the agreement commits Lisbon to such aid, Portugal's resources are limited, and domestic political and economic uncertainties will hamper its ability to support its former territory.

The settlement in Guinea-Bissau should boost Lisbon's stock with insurgent leaders in Mozambique. Portuguese officials apparently are optimistic about an early settlement there and will resume talks with rebel leaders on September 5, probably in Lusaka, Zambia.



25X1

There is no sign of forward motion in Angola, however, largely because rebel leaders continue to fight among themselves. A congress of the Popular Movement for the Liberation of Angola was called two weeks ago to resolve the organization's bitter leadership dispute and to consider joining forces with the Zairian-based National Front for the Liberation of Angola. This meeting collapsed recently following the withdrawal of the organization's president, Agostinho Neto, in protest over a censure vote against his leadership. At present, there appears to be no solution to the disarray in the Angolan liberation effort. Lisbon is thus left in the awkward position of being willing to give up the territory but having no meaningful political organizations with which to negotiate.

25X1

25X1

25X1

25X1

## GREECE: LOOKING TOWARD EUROPE

When the new governor of the Bank of Greece remarked in an interview with a German newspaper last week that Greece was "unimaginable as a free state outside the European Community," he was reflecting the priority the Karamanlis government places on Greek-EC relations. One of the new government's early moves was to make arrangements for Foreign Minister Mavros to see EC Commission President Ortolli in Brussels, a visit set for early next month, and for a later trip by the finance minister. Aware of the long-standing interest of the European Parliament in the Greek question, Athens played host for a five-day visit last week of the parliament's Dutch president. The Greeks have now formally requested renewal of those provisions of the 1961 treaty of association that were suspended by the EC after the military coup in 1967. Full membership in the EC remains a goal, but whether Athens presses it in the near future will depend on how the Greeks read sentiment among the Nine for such a step.

The Karamanlis government is above all interested in the acceptance and legitimacy it feels EC ties will confer and presumably has few illusions that restoration of full association ties with the community will replace the security links with the West severed by Greece's withdrawal from NATO's integrated military structure. Top Greek officials nevertheless clearly see "Europe" as in some sense a political alternative to ties with the US. In a recent interview with an Italian newspaper, Foreign Minister Mavros noted that Greek policy would be less "regulated by the Americans" and that Athens had now "at last to look toward Europe." The campaign to restore normal relations with the EC has broad support among Greek politicians, with the possible exception of returned left-wing leader Papandreou. The only explicit opposition has come from pro-Moscow Communist elements.

The Nine are generally well disposed to "do something" for Greece, even though individual interests may vary somewhat. All the EC members agree that they should work to preserve Greece's Western orientation. They probably share the dismay expressed by French President Giscard d'Estaing this week that Europe had been powerless to prevent hostilities between Greece and Turkey, both associate members of the community. The Germans, however, are almost certainly more anxious than France to encourage Greece's military reintegration into NATO. Bonn is also jealous of preserving what it considers its unique good relations with both Ankara and Athens. The Italians, and probably some of the other EC members, remain suspicious of French ambitions in seeking closer relations with Greece.

All of the Nine can still probably agree on the desirability of restoring association ties with Greece. According to German officials, the EC Council meeting on September 17 is expected to make a positive decision on this. One effect would be to unfreeze some \$55 million in loans that had been blocked by the 1967 EC action. There may be some legal problems over restoring these funds, however, as well as on such questions as extending the old association agreement to the three members of the EC who have joined since the original pact, and on resuming discussions on agricultural harmonization. Among other early issues to be discussed are new financial aid and a statute covering Greek migrant labor in the EC.

The community will probably want to move quickly to answer any Greek requests, but it will be reluctant to restore ties before full democratic forms are restored in Greece. Athens would probably accept this as a condition for renewed relations, but prolonged haggling over terms could strain the good will both sides are showing.

25X1

25X1



## ICELAND: A NEW GOVERNMENT

After eight weeks of negotiations, the conservative Independence Party and the moderate Progressive Party reached agreement this week on a coalition government. The new government will be headed by the chairman of the Independence Party, Geir Hallgrimsson, who is pro-US and favors retention of the US-manned NATO base, probably with some modifications.

The coalition will have 42 seats in the 60-seat parliament, and each party will have four ministers in the cabinet. Progressive Einar Agustsson retains his post as foreign minister and provides continuity as chief negotiator on the base issue. Unlike past base negotiations, when Agustsson was buffeted between moderates in his own party and leftists in the Communist Party, he may now be able to settle down to useful talks.

The new government may still require a US response to the stringent demands for a reduction of US troop levels put forward by the previous coalition last April. Although Reykjavik probably will not insist that all its proposals be accepted, the so called "non-negotiable" demands, first raised last year, are expected to remain on the table. These include the hiring of more Icelandic nationals at the base, on-base housing for all US military personnel, and separation of civilian and military facilities at the airport.

Nevertheless, Hallgrimsson expressed confidence that the base issue would be settled amicably. He told the US ambassador on August 27 that "our problems are over." The ambassador speculated that negotiations could resume as early as the latter part of September when Foreign Minister Agustsson will be in the US for the opening of the UN General Assembly.

The deepening economic crisis, however, may occupy much of the government's attention, at least initially. Last week, the Icelandic Central Bank restricted foreign currency trading when foreign reserves dropped dangerously low. The first priority of the new coalition will be to devalue the krona—currently valued at about 95 to the dollar—by approximately 15 percent. The

### ICELAND'S NEW CABINET

Geir Hallgrimsson	Prime Minister (IP)
Einar Agustsson*	Foreign Minister (PP)
Olafur Johannesson*	Commerce Minister Justice Minister (PP)
Matthias Mathiesen	Finance Minister (IP)
Matthias Bjarnason	Fisheries Minister Health & Social Security Minister (IP)
Gunnar Thoroddsen	Industries Minister Social Affairs Minister (IP)
Halldor Sigurdsson*	Agriculture Minister Communications Minister (PP)
Vilhjalmur Hjalmarsson	Education and Culture Minister (PP)

\*Served in the previous government.

(IP) Independence Party (PP) Progressive Party

25X1 25X1

government must also make decisions on wage and price controls, which were due to expire this week but have been extended for another month.

## UK: TRADE UNION CONGRESS

Britain's trade union leaders will try to put on a show of unity at the annual meeting of the Trades Union Congress that opens on September 2. The congress will provide Labor Party leaders with an important forum from which to publicize their position on major issues.

The convention will be held at a time when all the political parties are preparing to open their campaigns for the expected—but still unannounced—general election. Prime Minister Wilson will probably set a date for the new election when he addresses the opening session of the congress.

25X1

[redacted] reaffirmation of Bucharest's independent course in the Communist world. 25X1

The most important contribution that the unions could make to Labor's campaign is to reaffirm their pledges to restrain wage demands. The new general secretary of the congress, Len Murray, is expected to ask labor to moderate its wage demands this fall in order to fulfill the unions' bargain with the Labor government—the so-called social contract. He probably will also stress that in this election year, it is more important than ever that the unions avoid the damaging divisiveness of the past and strive for a consensus on the main issues facing Britain.

With no quick and easy solutions to Britain's economic problems in sight, the issues facing the union leaders promise to raise emotional and difficult questions. There are a host of draft resolutions, ranging from demands for extensive wealth redistribution and increased nationalization to simple restatements of support for the leadership's efforts to solve the economic problems. If the congress follows the lead of the powerful miners union, however, it will travel a moderate route.

The congress will also consider several resolutions dealing with British membership in the European Community. A majority of the motions introduced on this issue urge renegotiation of the terms under which Britain joined the community, to be followed by a referendum in which the voters could decide whether they approve the new terms.

Although most congress members are in favor of maintaining contacts with individual European labor unions, only the more conservative unions also support institutional ties with the EC. The present policy of non-participation is expected to be endorsed by the congress. [redacted]

#### ROMANIA: 30th ANNIVERSARY FETE

President Ceausescu used the 30th anniversary of Romania's liberation to make a pointed

In his opening remarks to a session of the Grand National Assembly on August 22—with Soviet Premier Kosygin and Chinese Deputy Premier Li Hsien-nien in the audience—Ceausescu tossed a few rhetorical bouquets to Moscow, but there was little in which Moscow could take comfort. The Soviets could not, for example, miss the implications of Ceausescu's repeated use of the word "all" when referring to the absolutely equal rights of parties and countries. The Romanian leader reasserted Bucharest's intention of developing relations with all states "regardless of social system"—a reference to the West—and he stressed that international relations should be based on Bucharest's highly touted principles of "full equality and...non-recourse to the use or threat of force." This was a particularly pointed statement since it came almost six years to the day after the Soviet invasion of Czechoslovakia.

Ceausescu's remarks on the Romanian economy, and his ridicule of those who had earlier advocated that Romania remain an agricultural nation, drew applause even from Kosygin. It was Khrushchev's promotion of this role for Romania that initially caused Bucharest to launch its independent course in the early 1960s.

Moscow's reaction to the anniversary was correct but perfunctory. Premier Kosygin met once privately with Ceausescu, and then left the country on August 24, reportedly in spite of an invitation to extend his stay a few days.

By contrast, the Chinese sent an exceptionally warm and even effusive telegram, citing the two countries' common struggle against "imperialism and hegemonism." Deputy Premier Li had two private sessions with Ceausescu; each was described as taking place in a "warm and friendly atmosphere." [redacted] 25X1

## HUNGARY: RUMORS OF TROUBLE

Rumors circulating in Hungary for two months suggest that factionalism is at work within the party hierarchy. Party conservatives, who are probably taking inspiration from the Soviets' drive for ideological "vigilance," are apparently agitating for modifications in Kadar's relatively moderate economic reforms and his long-standing policy of cultural liberalism.

Some of the stories assert that Kadar is either going to step down or will be forced out by challenges from a relatively junior party leader backed by conservatives in the party apparatus. The conservatives dislike the reforms because they erode their special influence.

Nonetheless, Kadar has loyal followers in most of the key jobs in the central party apparatus and seems able to weather this sort of challenge. Moreover, Soviet party chief Brezhnev apparently is on his side. The communique issued after talks between the two leaders earlier this month stressed a "complete identity of views."

Kadar does, however, have problems. The Hungarian party is in the initial stages of preparing for its 11th congress next spring, and Kadar loyalists may have trouble stage-managing debates over policy. A warning against a "factionalist grouping" appearing in the party daily on August 4 suggests that the party chief may be preparing to draw the line between legitimate debate and "anti-party" activity.

Factional conflict may have been intensified by the demotion of two key reformers this past spring. The demotions—the first major personnel changes since 1966—stirred fears that Kadar's reform program clashed with Moscow's interest in tightening discipline in Eastern Europe. The regime tried to allay these anxieties by reassuring the Hungarians that only the pace of the reforms will be affected. Moreover, Kadar has also taken pains to avoid altering economic policy.

## VIETNAM

### ACTION PICKS UP

Military action picked up during the week in the northern provinces and in areas close to Saigon. A number of fresh Communist attacks in midweek against government positions on the high ground south of Hue resulted in the loss of several outposts. The action appears designed to challenge control of the southern approaches to the city. In South Vietnam's Military Region 3, Communist military action reached its highest level in fourteen months, with new action erupting in western Tay Ninh Province and to the north of Saigon.

These latest Communist initiatives may force Saigon to reorganize some of its combat units, which have been shifted to other threatened regions of the country. South Vietnamese officials are showing increasing concern over the lack of reserve forces in the Saigon area, and regional commanders are clamoring for more fighting strength.

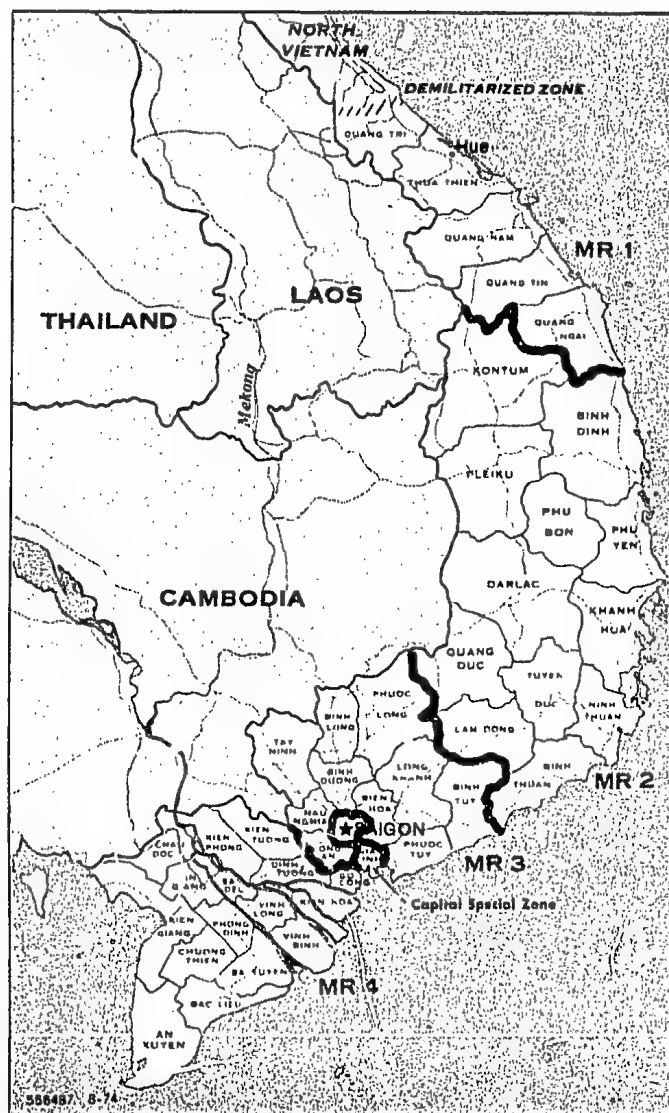
### NOISES FROM THE NORTH

In keeping with the generally higher level of military activity, North Vietnamese propaganda has taken a more militant turn. Hanoi apparently believes that President Nixon's resignation, together with Washington's unsolved economic troubles, have left the US—and, by extension, the Thieu regime—considerably weakened, opening up new political and military opportunities for the North. A Viet Cong broadcast of August 12, for example, claimed that the resignation was a blow to the "Thieu clique" and urged the people of the South to seize the opportunity "created by the enemy's crisis" to deal it "grave setbacks."

The new line includes—for the first time since the signing of the Paris accords—calls for the overthrow of President Thieu. Earlier, Hanoi had taken the position that the Thieu government would be replaced in due course through negotiations involving all the parties in the South. Al-

though the Communists have not ruled out political means of securing Thieu's ouster, Hanoi has obviously become increasingly disenchanted with its political prospects in the South and may have decided to try to push Thieu into negotiations by force.

North Vietnam may also be addressing the question of Chinese and Soviet support for its future strategy in the South. A recent article in its



army newspaper appears to take several swipes at past counsels of restraint by stressing the historical necessity of Hanoi's "liberation war," arguing that "Marxists must inevitably support this war," and making a particular effort to counter any charge that renewed fighting in South Vietnam would lead to world war.

The article, which was not presented as an authoritative party pronouncement, was unsigned and has not been broadcast or printed in the party paper. It was, however, cast in a format usually reserved for important statements. It may be intended to register sharp dissatisfaction with the present level of military aid from Moscow and Peking—which has declined considerably since the cease-fire. It could also reflect an internal debate over the reliability of future support from abroad, or perhaps merely serve as a warning to Peking and Moscow that Hanoi intends to prosecute the war on its own terms.

The shift in Hanoi's propaganda is consistent with a continuation of the current relatively heavy military pressure on South Vietnamese forces. It could also mean that the Communist high command has decided on a policy of gradually stepped-up attacks that will probe the effectiveness of Saigon's army and the firmness of US support. [REDACTED]

## LAOS: SURVIVING WITHOUT SOUVANNA

Prime Minister Souvanna Phouma left Laos early this week for several months of convalescence in France. The 72-year-old Lao leader has been making slow but steady progress from the massive heart attack he suffered seven weeks ago, but his condition is still considered serious and it is questionable whether he will ever be able to resume full political activity.

Prior to his departure from Vientiane, Souvanna publicly announced that he was turning over the affairs of state to Communist Deputy Prime Minister Phoumi Vongvichit and to his non-Communist counterpart, Leuam Insisiengmay.

There were earlier indications that Souvanna had designated Phoumi as the sole "acting prime minister," but in the end he apparently decided on a duumvirate arrangement as a means of maintaining the political equilibrium between the two sides during his absence.

The coalition government has continued to function without Souvanna's strong hand at the helm, but both Communist and non-Communist members are apprehensive about the effect the Prime Minister's absence will have on the current political situation. The non-Communists are worried that the Pathet Lao will try to take advantage of the leadership vacuum created by Souvanna's absence. They are especially fearful that the tough and highly talented Phoumi will attempt to outmaneuver the lackluster Leuam, even though both deputy prime ministers are supposed to share power equally.

The Pathet Lao, for their part, are anticipating rightist intransigence on key policy initiatives that have been made by the Communists, and they may be wary of other forms of trouble-making as well. As a result, they may proceed cautiously while Souvanna is away rather than risk disrupting a political trend that has been evolving in their favor ever since the formation of the new government.

The deep-seated distrust and suspicion between the two sides threatens to make the resolution of serious problems facing the coalition all the more difficult. The economy remains in desperate straits, a wave of labor unrest has hit Vientiane, and thorny political issues—such as the dissolution of the National Assembly and the implementation of Pathet Lao leader Souphanouvong's 18-point national program—remain unresolved.

Souvanna has reportedly counseled the coalition's temporary leaders to avoid any controversial or divisive issues that could disrupt the fragile coalition, and to concentrate instead on routine government business. This reinforces the prospect that a period of executive inaction is in store. [REDACTED]



## CHINA: INCREASING PETROLEUM SALES

China will export at least 4 million tons of crude oil this year, and Peking has suggested that much larger amounts will be available during the remainder of the decade. By 1980, crude oil exports probably will rise to 50 million tons a year.

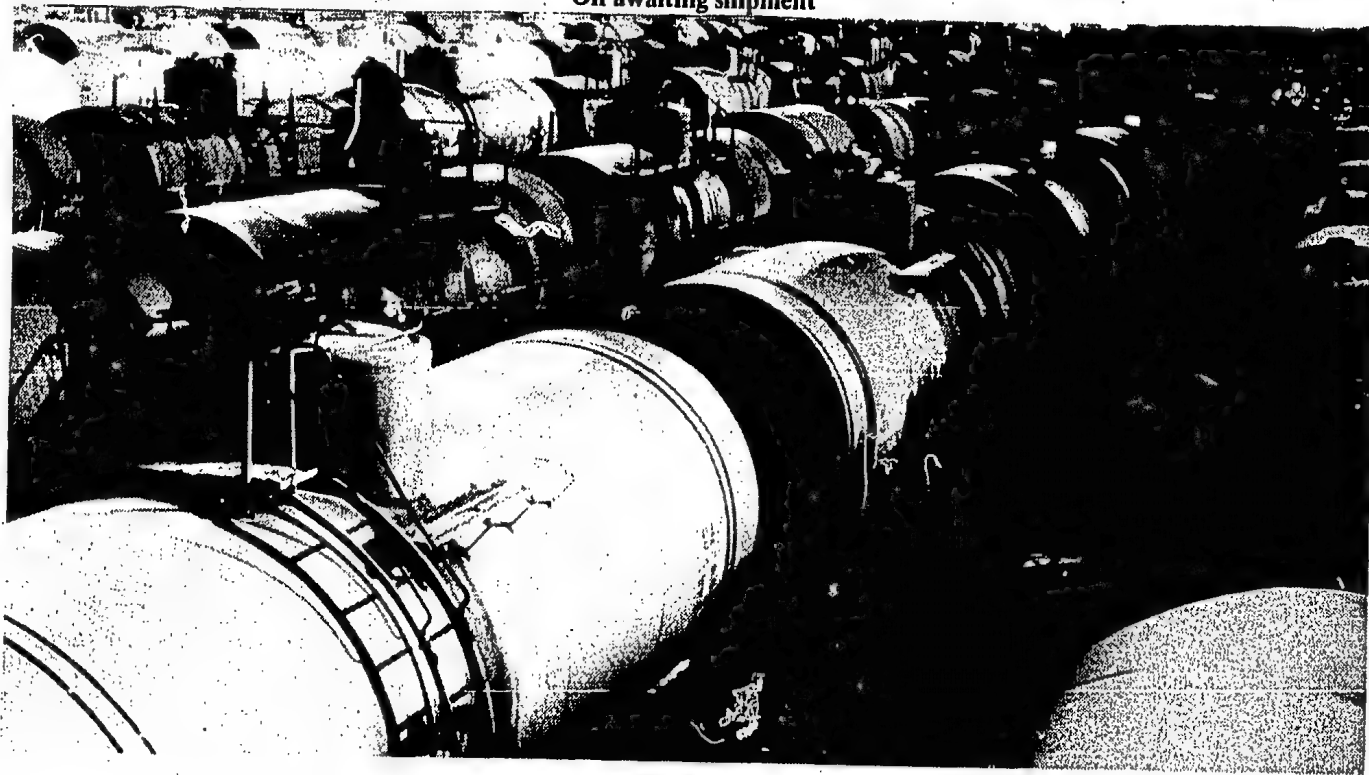
Peking's plans to increase oil exports substantially over the next five years are borne out by the construction of new oil-handling facilities at ports in north China and the purchase of the dredging equipment needed to make Chinese ports deep enough for large tankers. China is also actively engaged in acquiring tankers of over 50,000 deadweight tons to transport crude oil for export.

Crude oil production has come largely from onshore fields, although some offshore exploitation is being carried out in the Pohai Gulf. So far,

activity in the deeper waters of the continental shelf has been limited to geological surveys. Even without production from offshore fields, however, reserves are large enough to meet the goal of 50 million tons of crude exports by 1980. If production accelerates, or even if it only increases at the present rate of 22 percent annually, China could reach its export goal and still provide a generous increase for domestic use.

If Peking should encounter unexpected difficulties in achieving its goal, it might change its attitude toward direct foreign participation in the development of the petroleum industry. Peking's present position is against joint ventures, direct foreign investment, or product sharing. Nevertheless, "cooperative" arrangements—those initiated by China and presented as a straightforward commercial exchange of technology and equipment for a specified quantity of production—cannot be ruled out. Exploitation of the deeper waters off

Oil awaiting shipment



the Chinese coast will almost certainly require foreign, and particularly US, technology.

Over the next few years, rapidly increasing oil supplies will be a major factor in modernizing the Chinese economy. Aside from fueling its growing defense establishment, extra oil supplies are being used to: develop the petrochemical industry; supply expanding civil air, merchant marine, and truck transportation services; increase the supply of fuels for irrigation and farm machinery; and generate electric power. Even the consumer has felt direct benefits—kerosene for home use was removed from the list of rationed commodities in 1972.

Growing oil exports will also help finance China's large wheat imports and multi-billion-dollar industrial plant purchases. In the next few years, oil exports could provide half a billion dollars annually. Nevertheless, the markets for China's oil exports are not unlimited. Japan, the major market for Chinese crude, follows a policy of diversifying its sources of oil and will seek to avoid becoming dependent upon China. Any attempt to market large quantities of products, which could provide higher returns, will face serious opposition from the Japanese refining industry. A widening of the Chinese share of the product market in Hong Kong and Southeast Asia will face strong competition from the international oil companies that now dominate these markets.

25X1

### **MALAYSIA: A CLEAN SWEEP**

The Razak government's thumping victory in the national election last weekend promises a continuation of moderate domestic policies aimed at containing the racial tensions that are never far below the surface in Malaysia. Kuala Lumpur's foreign policy will continue to emphasize South-east Asian regionalism, and the government will

maintain its somewhat detached but basically friendly attitude toward the US.

The National Front, a new confederation of nine parties that represent all of Malaysia's major races, will dominate the 154-seat lower house of parliament. Parties in the Front have won 121 of the 131 seats decided so far. The government is expected to win an equally large share of the remaining seats from the Borneo state of Sarawak, where returns from remote jungle districts will not be in for another week.

The election outcome marks the virtual attainment of Prime Minister Razak's goal of a government of "national consensus," an all-embracing coalition with only token opposition. Despite the multiracial nature of the confederation, the main government party—the United Malays National Organization—is predominant, and Malay political pre-eminence was enhanced by some redrawing of constituency boundaries before the election. Approximately 40 percent of the population is Malay, 40 percent Chinese, 10 percent Indian, and 10 percent tribal groups who live in the Malaysian part of the island of Borneo.

The government kept racial tensions in check during the election by abbreviating the campaign and forbidding discussion of provocative topics. It hopes the strength of its showing at the polls will further reduce the likelihood of communal rioting such as erupted after the last election in 1969.

Razak was under no obligation to call elections for another 18 months, but the government decided to take advantage of current favorable factors. The Malaysian economy, for example, is booming now but could slack off later on. Recent gains over Communist guerrillas in Sarawak had also deflected the people's attention from some expansion of the nagging insurgency in peninsular Malaysia.

25X1

25X1

25X1

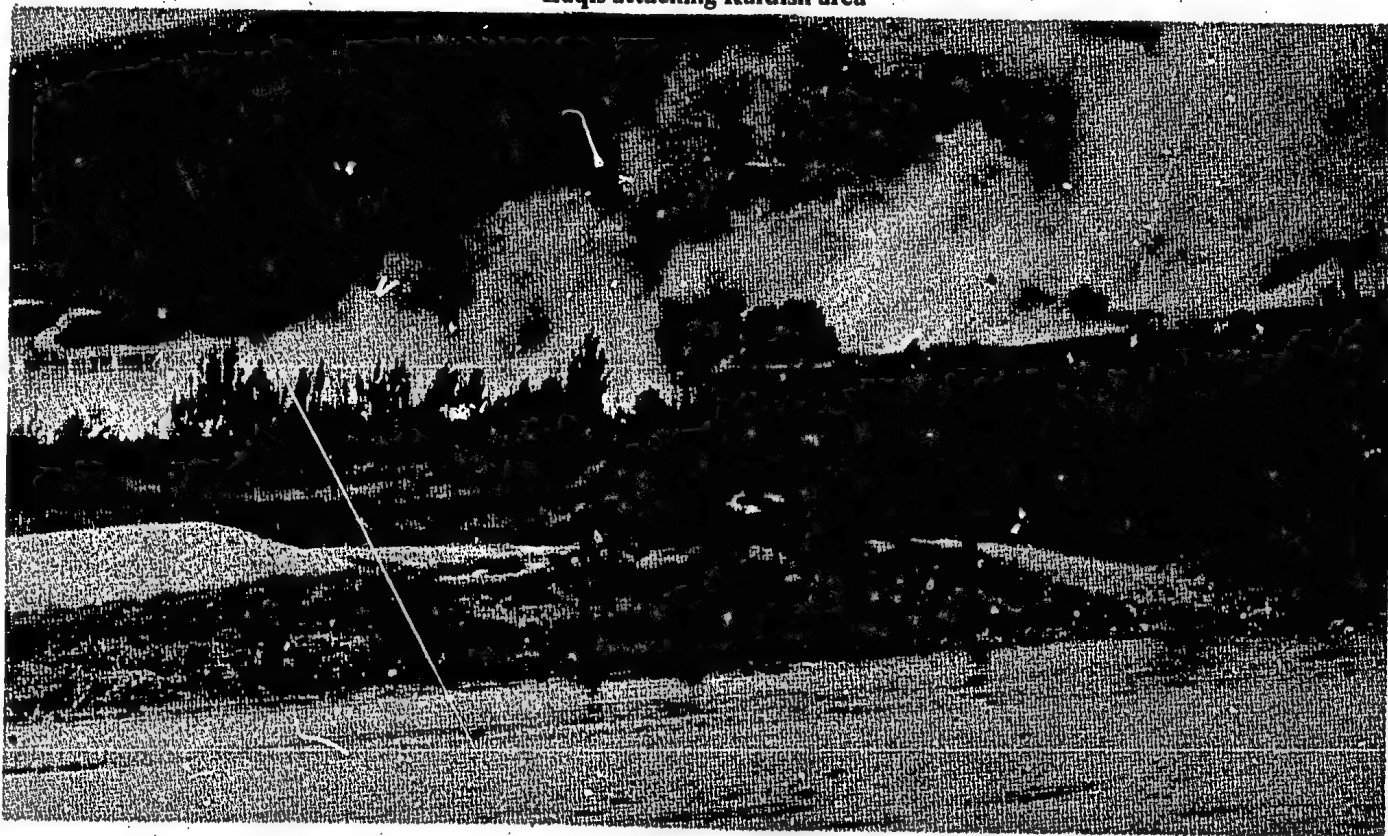
**IRAN-IRAQ: BORDER TROUBLE WORSENS**

Iranian and Iraqi forces clashed along the border early this week, reflecting the tension that has been growing between Tehran and Baghdad. The fighting on August 26, which lasted over two hours, reportedly occurred at three locations along the southern Iraqi-Iranian border. There was renewed fighting on Tuesday, in which an Iranian armored brigade apparently inflicted heavy losses on Iraqi positions. Similar clashes also occurred along the central border last March.

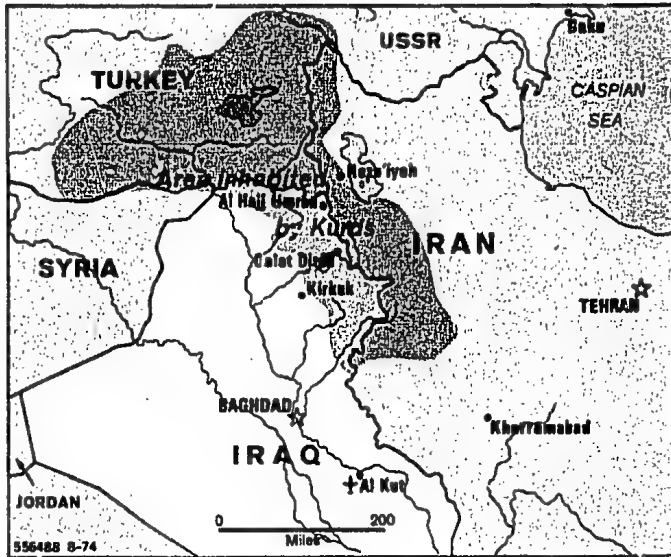
The Iranian actions apparently were triggered by a new Iraqi military campaign designed to isolate rebel Kurdish forces by cutting their supply lines to Iran. The Iranians were probably tempted to ease pressure on the hard-pressed Kurds in northern Iraq by launching diversionary attacks along the southern border. The Iraqis are likely to press their campaign, however, and the Iranians will continue to respond, thus making more clashes likely.

The increased Iranian military activity is probably as much a reflection of the Shah's deep suspicions of the Baathist regime and his wish to exert pressure on Baghdad as it is of his desire to support the Kurds. He probably believes that the increased military pressure will add to Baghdad's

Iraqis attacking Kurdish area



25X1

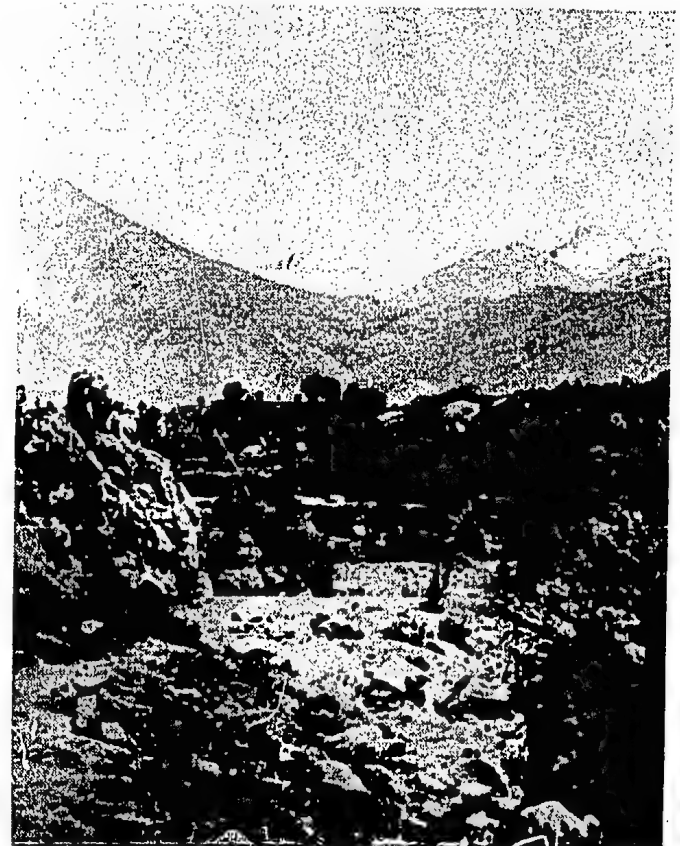


domestic difficulties, thereby enhancing the chances of a military coup that might bring to power a government more acceptable to him.

Even so, the Shah is probably not disposed to push the current incidents beyond border clashes, although Iran's military superiority probably ensures an Iranian victory should a full-scale war develop. Diversionary attacks and increased Iranian support for the Kurds are likely, however, during the next several weeks—until weather changes begin to hamper large-unit Iraqi military operations.

The Iraqis, for their part, are apparently facing real domestic difficulties arising from the Kurdish situation. Although Baghdad seems fully committed to making significant progress in the current offensive, military successes have come at the price of heavy losses.

Despite the clashes and heightened tension, talks between Iran and Iraq have been going on in Istanbul since August 12, pursuant to a UN resolution. Efforts to work out an agenda for talks at the foreign minister level apparently have bogged down. Indeed, there are indications that the foreign ministers' meeting may be delayed until after another round of discussions in the next month or so. Talks between the foreign ministers will depend on the ability of both sides to keep the fighting from getting out of hand.



A Kurdish settlement

## SPANISH SAHARA: REFERENDUM SET

Spain announced last week that a referendum to decide the political future of Spanish Sahara will be held under UN auspices in the first half of 1975. The decision to proceed with a vote on self-determination as recommended by earlier UN resolutions has irked Morocco's King Hassan, who has been pressing to have the area turned over to Morocco through bilateral negotiations. Madrid's move is also likely to lead to new friction between Morocco and the two other parties—Mauritania and Algeria—that are interested in the disposition of the area.

In a speech on August 20—the same day Madrid notified the UN Secretary General of its intention to hold a referendum—King Hassan attached tough conditions to Morocco's agreement to the plan. He insisted that any vote must occur under international control after Spanish troops and administration had been withdrawn. He further indicated that he would oppose holding the referendum if the principle of independence were one of the options offered. In the past, Rabat had implicitly accepted independence as one option, provided the 20-25,000 Saharan nomads it claims live in southern Morocco are allowed to vote.

The King argued again that the best way to settle the Sahara question is through bilateral negotiations between his country and Spain. He implied he would accept a UN mediator to facilitate such talks.

Hassan's tough line will make it difficult for him to compromise on anything less than Moroccan control of all the territory. Although the King stressed his desire to acquire the territory through peaceful means, he repeated the threat he made last month to resort to force if necessary. The continuing movement of Moroccan troops to the south is designed to give added meaning to his words.

Meanwhile, Mauritania has sent a letter to the UN indicating that, although it will not renounce its own claim to Spanish Sahara, it will accept international arbitration of the issue under UN auspices. The Mauritians are in fact less interested in pressing their claim than in



Ould Daddah, Boumediene, Hassan

countering Morocco's. They have quietly solicited support in Arab and African capitals for the UN resolutions, which provide for the exercise of "self-determination and independence" by the people of the territory, and will strive to reinforce them in the UN General Assembly this fall. Moreover, they have privately requested Madrid to keep its troops in the Sahara through the referendum and for several years thereafter to guarantee the territorial integrity of the new state.

Algeria has so far avoided taking a public stand in the dispute but clearly does not want to see the territory become part of Morocco. Like Nouakchott, Algiers is probably counting on a resolution being passed in the UN General Assembly this fall that will support a referendum with independence as an option and thereby pre-empt a bilateral deal between Spain and Morocco. As president of the General Assembly this fall, Algerian Foreign Minister Bouteflika will be in a good position to coordinate such an effort. 25X1

The Spaniards have made clear to the Moroccans their determination to go through with the referendum, but they otherwise seem to be trying to remain flexible. Madrid has, for example, expressed interest in consulting further with the other interested parties.

the Saharan issue is now widely recognized as a serious liability by the Spanish government, and any solution short of a simple transfer of territory to Morocco would be acceptable to Madrid—including a vote for affiliation with Morocco in the forthcoming referendum.

25X1

25X1

25X1



## ETHIOPIA: NEW TACK IN ERITREA

Prime Minister Mikael's government, struggling to survive under the pressures emanating from the military reformists' Armed Forces Coordinating Committee, has begun a new effort to resolve problems in Eritrea Province, which has been troubled by an active revolt for a decade. The committee, meanwhile, has further isolated Emperor Haile Selassie, and may be preparing to force his ouster or abdication.

Mikael announced in parliament last week that the government would give priority to solving the Eritrean problem; he blamed the bloodshed there on maladministration by previous governments. Defense Minister Aman, a key link between the cabinet and the committee, who is himself from Eritrea, said he would visit the province in preparation for making new policy recommendations. The Interior Minister pledged to appoint in Eritrea only officials who would implement the new policies; the appointment of unpopular officials has been one of the main sources of discontent. The Interior Minister also said the government would review the status of Eritrean prisoners with an eye to granting amnesty.

Moving quickly to implement its promises, the government on August 24 appointed a popular and respected civilian to replace a military officer as governor general of Eritrea. Two days later, Aman arrived in the province to talk with local leaders and members of the army garrison. Aman apparently did not plan to talk directly to members of the rebel Eritrean Liberation Front on this visit, although the military is believed to have had unofficial contacts with the rebels.

On the day Aman arrived, a spokesman for the Front in Beirut declared the rebels' willingness to negotiate a peace settlement with the coordinating committee. He insisted, however, that the Front first be recognized as the sole legitimate representative of the Eritrean people—a condition unacceptable to the military and probably to most Eritreans. The military and the

government are also unwilling to grant full independence, the Front's avowed goal.

The loosely organized rebel movement is divided on the question of negotiations, and the spokesman's statement is probably not the final word on the Front's position. The government's new policies would seem to have at least a chance of attracting widespread support from the Eritrean public and moderate rebel leaders.

Last week the coordinating committee also took further action to trim back Haile Selassie's perquisites. It abolished the Ministry of the Imperial Court, which administered the Emperor's household, and nationalized his palaces. The committee has also placed unspecified restrictions on the Emperor's travels, although it is not clear whether this was for his own protection or to prevent him from meddling in political affairs.

These actions followed two weeks of unprecedented open criticism of Haile Selassie, during which he was denounced and the monarchy as an institution was denigrated in press articles and pamphlets. The committee may have instigated these moves to undermine the Emperor's prestige as a prelude to his removal.

Haile Selassie's ouster could provoke a serious reaction among the rural population. The coordinating committee might try to prevent serious violence by maintaining the monarchy and placing the Emperor's grandson, Zara Yacob, on the throne.

Meanwhile, a major dispute between Mikael and the committee over the Prime Minister's appointment last month of four cabinet members found objectionable by the military was finally resolved by a compromise. In a ministerial reshuffle announced on August 25, Mikael dropped three of the four men from the cabinet and demoted the fourth to a lesser ministry. One of those dropped was given an ambassadorship. The committee, which had wanted to arrest all four, in the end arrested only one.

25X1

25X1

25X1

25X1

## CHILE-PERU: THE ARICA ISSUE

Chilean junta President Pinochet reportedly has instructed his Foreign Ministry to begin implementing plans to convert the former Peruvian city of Arica into a free port. This move could involve the US in a dispute between Chile and Peru over interpretation of the 1929 treaty that settled boundary issues arising out of the War of the Pacific 50 years earlier.

Peru is likely to object to any significant change in Arica's status on the grounds that the treaty forbids either Peru or Chile to cede to a third power any border area territory in the absence of previous agreement between them. Chile would probably contend that making the city a free port is not equivalent to ceding it to a third power.

The treaty specifies that in case of irreconcilable differences over interpretation, "the dispute shall be settled by the President of the United States of America." The US is not a signatory to the treaty, but the Harding, Coolidge, and Hoover administrations mediated between Peru and Chile, and Washington was instrumental in bringing the parties together.

The free port scheme is indicative of Chile's fear that Peruvian revanchism could lead to aggression, especially since Peru's recent arms purchases—particularly the acquisition of Soviet tanks—have given it a decided military edge. Chile apparently hopes that investing Arica with some kind of international status will have a deterrent effect.

Peru will not take kindly to the Chilean move, especially if Brazil establishes a presence in Arica. This would spur Peruvian fears of Brazilian expansionism, and Lima would be likely to accelerate further its arms procurement program.

Peru already has received as many as 120 T-55 tanks from the USSR, and more reportedly

are on order

## Netherlands Antilles: INDEPENDENCE PROBLEMS LOOM

During his recent visit to the islands, Dutch Prime Minister den Uyl was quoted by the press as stating that the Netherlands Antilles must plan for independence by 1978. This is earlier than most Antilleans had expected, and such a time frame would meet strong opposition, both from the public and from local officials who fear that economic problems could lead to political upheavals and that Venezuela might try to take over in the absence of Dutch defense.

The Netherlands Antilles and Surinam are the last remnants of what was once one of the richest overseas empires in the world. The Dutch government, anxious to rid itself of the social and economic problems plaguing the islands and sensitive to the stigma of "colonialism," has been seeking to promote their independence since the end of World War II. In 1954, the two former colonies were granted autonomy in their domestic affairs, although The Hague retained ultimate authority over their foreign affairs and defense.

Surinam has decided to announce its independence in 1975, but the Netherlands Antilles is still trying to retain its ties to the Netherlands. Antilleans insist that, even if the present level of Dutch aid were continued, they could not accept

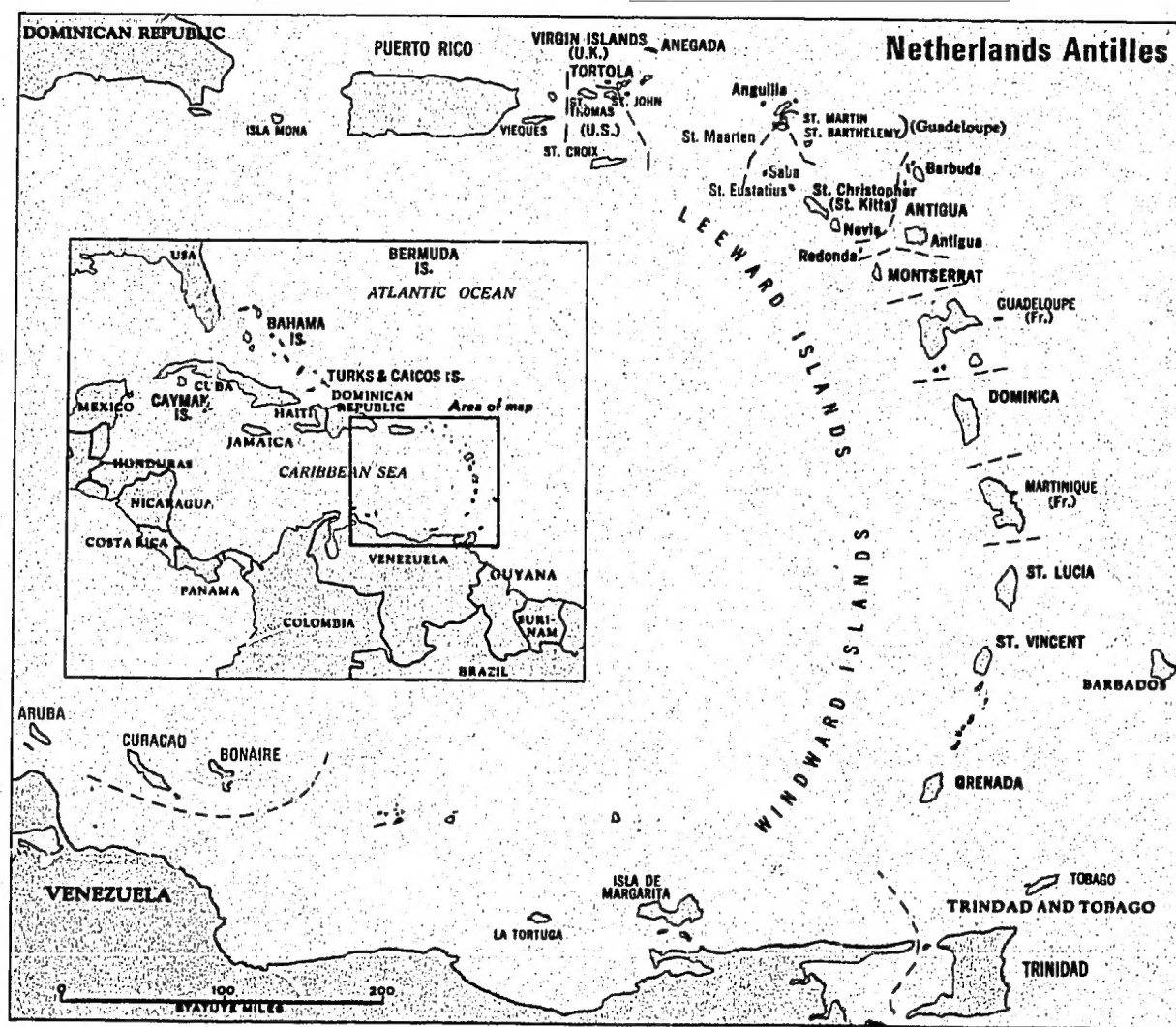
25X1

independence unless The Hague guaranteed their defense. The Netherlands is unlikely to do so since it has already announced the withdrawal of one third of the 600 Marines it has maintained in the Netherlands Antilles and is contemplating extensive reductions throughout its defense establishment.

The current wave of labor strikes and economic dislocations is also reinforcing Antillean fears of early independence. The world economic slowdown has caused significant reductions in the labor force and a slump in the all-important tourist industry. One US-owned firm has laid off over 400 of its 500 employees. Moreover, the teachers union of the Netherlands Antilles and a

labor union on Aruba are threatening general strikes, and pilots and other personnel of the local airline are engaged in a work slowdown.

The lag in tourism on St. Maarten has been made worse by publicity over violent labor disputes. Recently, the official residence of the lieutenant governor was destroyed by fire in what is believed to have been an attack by arsonists sympathetic to the labor cause. The chronic animosity between labor leaders and the political establishment is not likely to improve, and the accompanying economic troubles on St. Maarten could be particularly damaging to the general economy of the federation.



556501 8-74

25X1

25X1

25X1

## BRAZIL: FOREIGN TRADE CONCERNS

Brazilian government and business leaders reportedly are disappointed with the lack of expected results from recent visits by Chinese and Arab delegations.

[redacted] the Chinese, whose visit was highlighted by the establishment of diplomatic relations, showed little interest in buying the finished products that Brazil wants to export, although sugar purchases are likely to continue. [redacted]

[redacted] the Arab delegation seemed more interested in sightseeing than in serious negotiations. Some agreements were reached, however, including the formation of an Arab-Brazilian investment bank, but the Brazilians had hoped for still more substantial developments.

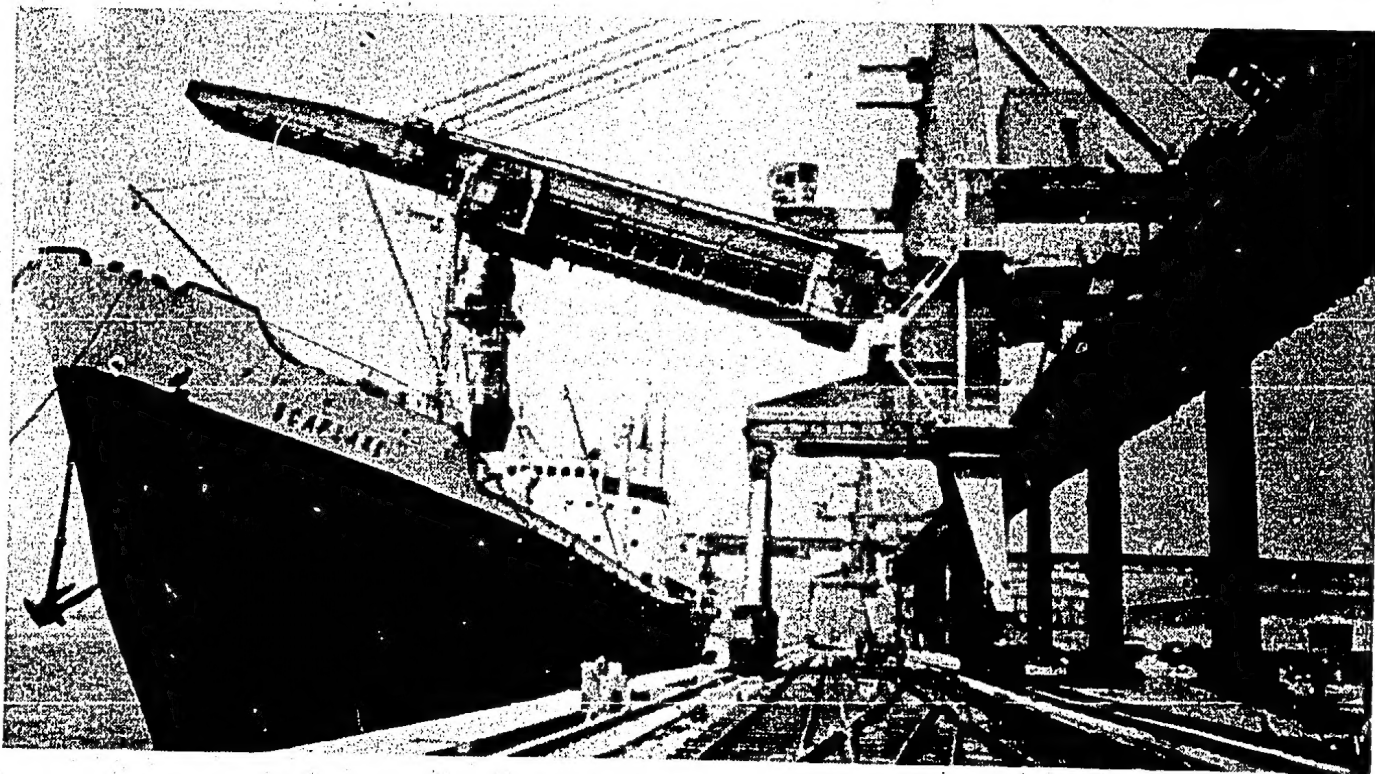
Brazil's leaders are watching to see if these apparent setbacks develop into a trend. The Geisel administration has been counting heavily

on expanding markets and sources of investment in order to continue the nation's impressive growth. Moreover, Brasilia has gone to considerable lengths—recognizing China and modifying its traditionally pro-Israel Middle East stance—to accommodate these potential trade partners. 25X1

25X1 25X1

The decision to recognize China reportedly has upset a number of top military men, who are said to be disturbed because Geisel acted so swiftly and consulted with them only in peremptory fashion. Some of the officers were apparently taken by surprise by Geisel's action. The move points up the President's practice of reaching decisions rapidly and implementing them with a minimum of discussion. Nevertheless, while senior officers are apt to be critical if more dramatic results are not forthcoming from the Middle East and China policies, serious dissension within the government is unlikely. [redacted]

25X1 25X1



25X1



## UN: TROUBLED WATERS FOR SHIPPING

Developing countries are pushing for ratification of a highly controversial shipping agreement sponsored by the UN Conference for Trade and Development. The Code of Conduct for Liner Conferences, if adopted, could shift a substantial portion of international seaborne liner cargo from the traditional maritime powers to the developing countries. Liner cargoes include all seaborne cargo except bulk goods such as grain, petroleum, and other raw materials.

In recent years, many developing countries—eager to expand their own merchant fleets—have passed laws giving preference to their own ships in carrying their own trade. Acceptance of the code would make such protectionist legislation unnecessary in the liner field.

Conferences—the associations of liner operators that set rates and allocate sailings among member firms on specific routes—have created much resentment among developing countries by arbitrary rate increases and by refusing membership to the national lines of the developing countries they serve.

The most controversial aspect of the proposed code is a cargo-sharing formula that has pitted the developing countries against the major maritime powers. This formula offers each nation the right to carry 40 percent of its seaborne liner trade while reserving 20 percent to third country ships.

Less-developed countries have the most to gain from this proposal. The liner fleets of these countries account for only 15 percent of the nearly 50 million deadweight tons in the world liner fleet and carry far less than 40 percent of their own liner trade. Fleet expansion—at least to the point where each country can carry 40 percent of this trade—is far in the future, however.

Other provisions of the code that have aroused contention include a requirement that rate revisions take place only 15 months or more after consultation with the governments involved, and criteria for conference membership that discriminate against third-flag ships.

Before it can be adopted, the code must be signed by 24 countries operating at least 25 percent of the world's liner tonnage. So far, only the Philippines has endorsed it. The EC is taking a hard look at the code since it conflicts with EC treaty prohibitions against discrimination among community members. Japan, which voted for the draft code at Geneva, seems the most likely maritime power to sign, particularly since Tokyo has budgeted \$1 million for drafting new legislation necessary to adjust domestic laws to the provision of the code. The US voted against the code at Geneva, but is currently reviewing its position.

25X1